## HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

**DATE:** AUGUST 8, 2007

REGARDING: AUTHORIZATION TO APPROVE INVEST SAINT PAUL (ISP) PED

WORKPLAN; AUTHORIZATION TO APPROVE BUDGET FOR FIRST PHASE

OF ISP ACTIVITIES; AUTHORIZATION TO ACQUIRE STRATEGICALLY LOCATED PROPERTIES IN DAYTON'S BLUFF DISTRICT 4 ISP TARGETED

AREA; AND AUTHORIZATION TO ACCEPT \$500,000 GRANT FROM MINNESOTA HOUSING FINANCE AGENCY UNDER MORTGAGE FORECLOSURE PILOT PROGRAM AS PART OF ISP ACTIVITIES

## **Requested Board Action**

- 1. Authorization to approve Invest Saint Paul PED/HRA Work Plan to be updated quarterly.
- 2. Authorization to approve Budget for First Phase Invest Saint Paul activities.
- 3. Authorization to acquire five strategically located properties within the Dayton's Bluff District 4 Invest Saint Paul Targeted Area.
- 4. Authorization to accept \$500,000 Grant from Minnesota Housing Financing Agency under the Mortgage Foreclosure Pilot Program as part of Invest Saint Paul activities.

### **Background**

In February 2007, a staff report was presented to the HRA Board that provided an overview of the Invest Saint Paul Initiative (Overview is referenced as **Attachment A**). The information for that report was gathered over the previous months through various neighborhood meetings. The issues discussed at these neighborhood meetings are included in **Attachment B** Neighborhood Concerns.

Additional information was gathered concerning the city as a whole including income, jobs, education, housing conditions, vacant buildings, foreclosures, neighborhood commercial corridors, etc. This information helped inform the identification of four, large concentrated areas of concern and four smaller areas where these issues are starting to balloon. These areas have been identified in the Maps referenced in **Attachment C**.

Based on this information, a preliminary list of proposed goals, work strategies and financial strategies have been identified. In order to move forward and be successful with these strategies, collaboration with other city departments and outside agencies is critically important.

To that end, PED has been actively working with community organizations and residents to target activities in larger Priority Areas to achieve the identified goals. Financing needs, budget assumptions, and numbers of properties that could be addressed have been preliminarily identified with partners. PED staff has worked with neighborhood partners to finalize work plans and budgets.

#### **Current Status**

As of July 1, 2007, the City of Saint Paul had 1,124 vacant properties, with nearly 80% located within the Invest St. Paul areas. In addition to the vacancies, there were over 2,000 foreclosure notices listed in the Legal Ledger for Saint Paul between March, 2005 and December, 2006; over 1,100 notices for the first seven months of 2007. These foreclosures are concentrated in the same areas. (Refer to Maps in **Attachment C**.)

A lack of access to sufficient rehabilitation funds and increases in taxes, utility bills, insurance, transportation, and health care, combined with families' stagnant wages, have all led to the vital need for more extensive resources to help stabilize families within their own homes. The city needs to slow and hopefully stop the damage being done by foreclosures and vacancies by working with the existing families and lenders to stabilize and maintain their housing.

The proposed first phase activities outlined in this report are initial steps to stabilize home owners in their current housing situation, prevent further foreclosures, and prevent deterioration of occupied housing stock. While the first phase will deal with existing homeowners with a wide range of incomes, most resources will be targeted to those with incomes between 50-115% of AMI.

Along with rehabilitation and stability of existing occupied housing stock, the HRA needs to take advantage of opportunities being offered through vacancy to identify strategic acquisitions. These acquisitions, along with subsequent rehabilitation, also stabilize neighborhoods by improving the

viability of the housing stock, improving the quality of life, and creating a more healthy and livable environment.

As noted above, PED staff has been working with various community partners in developing work plans for the Invest Saint Paul areas. Again, all the areas face similar challenges. Seven activities have been identified to comprehensively impact these neighborhoods:

## 1. Regulatory Services

- Work with Department of Safety and Inspections (DSI), District Councils, CDCs and residents to prioritize vacant buildings for rehabilitation or demolition.
- Work with DSI, District Council, CDCs and residents to have a clear and understandable interpretation of inspection standards and process for applying:
  - a. minimum property standards interpretation (Chapter 34)
  - b. Certificate of Occupancy for 1 & 2 units (new)
- 2. **Rehabilitation** Concentrated rehabilitation efforts to assist families with retaining their homes. This assistance will provide hope for families without resources to address energy efficiency, curb appeal items (exterior improvements), health-related items, etc. It will also provide for initial contact to identify other needs that the family may have which could include refinancing bad mortgages, counseling and other needs. Rehabilitation will range from minor repairs to major undertaking of improvements. Assistance will need to consider a variety of factors including income, curb appeal, energy efficiency, and cost feasibility, etc.
- 3. Mortgage Financing/Incentives Providing mortgage refinancing tools will reduce the number of completed, yet still vacant, CDC-owned properties for sale that were developed with city finances. Initially, it is proposed that approximately 23 CDC properties be assisted by mortgage incentives. Foreclosures will be reduced by working with lenders and encouraging the provision of affordable mortgage financing to families that have predatory or sub-prime loans that could result in the loss of their home. Interest write-down assistance, affordability financing gap, and entry cost assistance (i.e. closing costs, down payment assistance) funds are also necessary to keep mortgages affordable for families.
- 4. <u>Strategic Acquisition</u> Strategic Acquisition will be a significant tool to stabilize deteriorating blocks. Vacant properties will be acquired that will have a visible and quality of life effect on these blocks. These properties will either (1) be secured and held for rehabilitation until the market changes; (2) be demolished and held for future development; and/or (3) be held and deconverted back to single family use. These activities will occur where a number of them are strategically clustered.

The first action under this category is to acquire from Dayton's Bluff Neighborhood Housing Services (DBNHS) five vacant properties previously purchased to prevent investor purchases which may lead to further destabilization of the neighborhood. These properties are

strategically clustered in the targeted area and plans for their future will be developed with the neighborhood. (See Attachment G.)

HRA will control the properties for future development; DBNHS will be reimbursed, which will allow them to utilize their resources for additional rehabilitation activities in the target areas.

- Neighborhood Commercial Corridors Vacant commercial buildings will be evaluated for functional and economic obsolescence. We will work to grow new and stabilize and/or expand existing businesses.
- 6. <u>Projects</u> Major redevelopment activities will be undertaken for commercial gateways; major commercial and/or residential sites/nodes; and other mixed use developments. These will be Council and Mayor priority projects.
- 7. <u>Soft Cost Activities</u> Soft costs are those related to "Feet on the Ground," community outreach/housing assessment expenses in each of the four large targeted areas. For example, after comprehensive housing assessment worksheet has been developed by PED/DSI/CDC/District Councils, community staff will go door to door to gather housing stock information which will help inform investment and program design decisions. Other activities may include homebuyer training, financial counseling, tenants and landlord training, community organizing training, etc.) We may also need additional professional services such as appraisals, building evaluations, and environmental assessments.

Each of these items is further outlined with strategies in ISP PED Seven Step Approach referred to as **Attachment D**.

This overall initiative provides for an opportunity to create collaborative efforts to strategically channel city and private resources into revitalization strategies in four large neighborhoods and four, more concentrated, focus areas being challenged by recent economic and social down turns and persistent disinvestment.

## **Budget Action**

Inherent in the overall ISP work plan is the need for flexibility related to acquisition, rehabilitation, eligibility for assistance, etc. Each funding source comes with use and target income requirements. If the city is to address the magnitude of these issues and encourage private investment, a variety of resources from CDBG, STAR, TIF and others are needed. Without these various resources that provide differing options, the impact of our work will not be comprehensively realized.

The First Phase Funding totals \$5,114,000 of which \$3,564,000 is already budgeted for rehabilitation activities. An additional \$1,550,000 of CDBG and HOME funds need to be designated for other ISP activities identified under this first phase. Refer to **Attachment E** for first phase activities, identified funding sources and budget action being requested. CDCs and PED reviewed remaining budget balances including the 2007 allocation for rehabilitation which just became available in July. Of those amounts \$3,564,000 was identified as funds that could be directed to this first phase. It is anticipated that this first phase, with the assistance of DSI inspections and demolitions, will result in addressing 360-430 properties. We expect PED and neighborhood partners to address between 60-70 properties with rehab, mortgages, and strategic acquisition.

The overall PED Work Plan covers a three year period through December 31, 2010. (**Attachment F**) It identifies an overall funding need of \$66,990,000. This draft work plan has been used in discussions with other potential funders (e.g. Minnesota Housing Finance Agency, Family Housing Fund, etc.) to enlist their critically needed support. PED staff continues to work to secure additional financing. Activities to date include the following:

- 1. submitted an application to MHFA in February, 2007 to undertake a Pilot Mortgage Foreclosure Program; a \$500,000 grant was approved;
- 2. submitted an application to MHFA July 12, 2007, requesting \$3.0 million for rehabilitation and strategic acquisition to match HRA funds;
- 3. Dayton's Bluff NHS submitted request for \$7.0 million to Family Housing Fund for equity participation loans to assist families staying in their homes as well as assistance in buying homes. This was submitted on behalf of all the targeted ISP areas and could provide up to 200 loans. Family Housing Fund will consider request in late August.
- 4. HRA/PED and 7<sup>th</sup> Street Partners in working on the Hospital Linen site just received approval awarding \$1,095,000 from DEED and Met Council of clean-up funds.
- 5. Livable Communities application submitted July 16, 2007 for \$450,000 in infrastructure improvement for Rivoli Street in Railroad Island within the ISP area.
- 6. Family Housing Fund Board will consider a \$250,000 soft-cost request at their August board meeting.

The vacant building and foreclosure issue continues to grow. Recent news articles and other documentation indicate that foreclosures will continue to grow through 2008. The need to start this overall work plan is essential to keeping homeowners in neighborhoods, stabilizing and protecting prior investments, and increasing the tax base. The communities have identified targeted start areas

that build off prior or current investments to strengthen the area. This initial phase will assist in providing the information to determine the needs and types of products to to address these issues.

- 1. Dayton's Bluff District 4 will start within the blocks at Conway and Bates adjacent to the large investment at the Dayton's Bluff Achievement Plus School and recreation facility.
- 2. Payne Phalen District 5 will start within the blocks at Case and Payne adjacent to the large investment going into the Swedish Bank Building.
- 3. North End District 6 will start within the blocks surrounding Winnipeg and Rice adjacent to the development of the Winnipeg housing.
- 4. Thomas-Dale/Aurora St. Anthony Area will start within the blocks surrounding the new Dale Street Townhomes at Dale and Blair.
- 5. Four smaller areas were identified in Districts 1, 2, 3 and 9 which have these same intensifying issues.

# **Public Purpose/Goals**

The goal of this initial phase is to demonstrate a collaborative effort to strategically channel city and private resources into neighborhoods being challenged by recent economic and social downturns and persistent disinvestment. Specific goals include:

- 1. Creating working partnerships among banks, the HRA, local CDCs, District Councils and neighborhood residents;
- 2. Bringing together resources, time, talent and funding in neighborhoods poised to prosper after a prolonged period of disinvestment;
- 3. Reducing vacant houses in each of the areas;
- 4. Rehabilitating or addressing up to 55-75 housing units thereby strengthening the housing stock;
- 5. Saving 20% of properties per year that provide families with housing and improving the stability and quality of life in the neighborhoods;
- 6. Growing stable neighborhoods that continue to maintain racially and economically diverse families with healthy, well-maintained houses both in ownership and rental;
- 7. Building on the strengths of St. Paul's neighborhoods, by insuring that neighborhoods remain strong, and strengthening those where confidence is clearly declining.

## **Financing Structure**

The Rehabilitation component will require flexibility in underwriting. Based on income demographics and the city's goal for stability, PED will adjust the family adjusted gross income down by 15% for federal and state taxes. If housing costs from a first mortgage, insurance, taxes and utilities are more than 30% of a family's income, the rehab funds will all be deferred and due on sale and/or refinancing. In addition to looking at the family income, we will also look at property values. If the property value is not

sufficient to cover all costs filed against it, and if a rehab loan moves the total debt above the property value, a portion or all as necessary of the rehab funds will be structured as a forgivable loan over 15 years. A Deed Restriction to insure owner occupancy may also be considered.

The Mortgage Financing/Incentives component will be structured as equity participation loans which are due on sale together with closing cost assistance (forgiven over time of occupancy), and down payment assistance (due on sale). It is essential that the homes the city has invested in become occupied and not continue to add to disinvestment. Completely finished homes sitting vacant in these neighborhoods send a visible, detrimental signal that even investment cannot encourage people to buy and move in. Vacant properties also drain CDC resources that could be used towards rehabilitation of existing houses. These incentives will be used to entice a wide economic spectrum of buyers to move to these more distressed areas to strengthen and add stability.

Strategic Acquisitions to maintain as ownership, and/or remove blight and deterioration will be undertaken to help stabilize blocks. These acquisitions will come before the HRA for approval. Depending on the final reuse of the property, deed restrictions may be put on the property to insure continued owner-occupancy. Redevelopment funding may be required on some of these acquisitions; our goal is to recapture these funds at re-sale. Recapture of funds will depend on the overall cost to acquire, rehab, demolish and/or redevelop and the actual value of the property at time of re-sale.

### **Compliance**

All applicable City compliance requirements will be met.

## **Green/Sustainable Development/Improvements**

For all partners, keeping ongoing energy costs as low as possible is a critical element in maintaining the long-term affordability of housing units as well as improving indoor air quality. Specific materials, systems, and methods to increase energy efficiency and sustainability will be identified on a case-by-case basis when specific properties are identified and the scope of their rehabilitation is determined. Energy Star and LEED program guidelines will be used when and where possible.

## Recommendation

The Executive Director recommends approval of the Invest Saint Paul PED work plan, first phase activities and budget, authorization to acquired five properties in District 4 and authorization to accept \$500,000 grant from the Minnesota Housing Finance Agency.

**Sponsored by:** Commissioner Lantry

Commissioner Bostrom Commissioner Thune Commissioner Helgen Commissioner Montgomery

Staff: Tom Sanchez 266-6617

Sheri Pemberton-Hoiby 266-6615

- Attachment 1 Resolutions (3)
- Attachment A Overview of Invest Saint Paul
- Attachment B Neighborhood Concerns
- Attachment C Maps ISP Areas, Target Start, Foreclosure, Vacancy,
- Attachment D PED 7 Step Approach
- Attachment E First Phase Activities, Identified Funding Sources, Budget Amendment
- Attachment F Overall PED/HRA Invest Saint Paul Work Plan 3 years
- Attachment G Map of Dayton's Bluff District 4 Strategic Acquisition Properties